

QB365 Question Bank Software Study Materials

Sole Proprietorship Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Commerce

Total Marks : 75

2 Marks

10 x 2 = 20

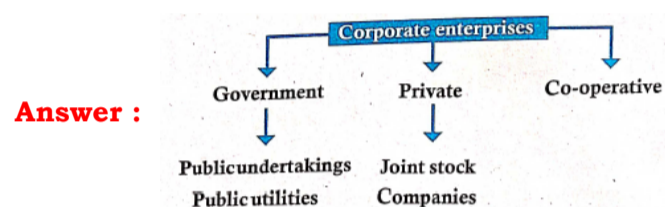
1) What is Sole trading business?

Answer : A sole trader is a simple business structure whereby one individual runs and owns the entire business.

2) What are the Non-corporate enterprises?

Answer : The non-corporate enterprises are sole trading concern, partnership firm and Joint hindu family business.

3) What are the Corporate enterprises?



4) Why do sole traders lose the economies of large-scale production?

Answer : Because of limited capital and skill, the sole traders have to work on a small scale basis. thus he is deprived of the economics of large-scale operation.

5) Is registration necessary for sole proprietorship?

Answer : A sole trader business need not be registered with any authority as that of partnership and companies. Any person who has money can start the sole trader business. He is to obtain a licence from the local authority like municipality or panchayat.

6) A sole trader tends to make hasty decision - Explain.

Answer : Decision arrived at, after deep deliberations and discussion are sure to be better than that of a decision taken by one man. It is rightly said two heads are always better than one. The chances of wrong decision- making are quite high in a sole trader business.

7) Define Sole Trader?

Answer : Sole Trader is a type of business unit where a person is solely responsible for providing the capital for bearing the risk of the enterprise and for the management of business. - J.I. Hansen

8) What is the other name for sole proprietorship?

Answer : Sole proprietorship is also called as Entrepreneurship.

9) Define sole proprietorship according to P.K. Ghosh and Y.K. Bhushan.

Answer : According to P.K. Ghosh and Y.K. Bhushan, "The sole proprietorship is a form of organisation in which an individual introduces his own capital, uses his own skill and intelligence and is entirely responsible for the results of its operations".

10) A sole trader business is uncertain-Explain.

Answer : The life of the sole trader business is uncertain and unstable. The life of business depends upon the changes in taste and preferences of customers and changes in fashion and technology. If sole trader fails to cope up with the latest development he will land in trouble.

3 Marks

10 x 3 = 30

11) How is it possible to maintain secrecy in sole proprietorship?

Answer : In sole proprietorship as the trader is the sole owner of the business, the secrecy can be maintained easily.

12) What is unlimited liability?

Answer : Unlimited Liability:

When his business assets are not sufficient to pay off the business debts he has to pay from his personal property.

13) Give some examples of sole trading business.

Answer : Grocery store, medical store, craft centre, legal consultancy, internet cafe, freelance writer, tutoring, catering company are some of the examples of sole trading businesses.

14) Write any three characteristics of Sole Proprietorship?

Answer : Ownership by one man:

The sole trader contributes the required capital. He is not only the owner of the business but also manages the entire affairs.

Freedom of work and Quick Decisions:

Since an individual is himself as a owner, he need not consult anybody else. Hence he can take quick decisions.

Maintenance of Secrecy:

In sole proprietorship as the sole owner manages all the affairs of the business, the secrecy can be maintained easily.

15) Can a sole trader business enterprise obtain the benefits of specialisation?

Answer : (i) The sole trader has to undertake all the work relating to business himself such as buying, selling, accounting, financing, advertising etc.

(ii) It would be difficult to avail the services of experts in his business because of small resources.

(iii) So, the benefits of division of labor and specialization cannot be obtained in this type of business.

16) Write about 'flexibility' in the business management of a sole trader.

Answer : (i) It is a highly flexible type of organisation.

(ii) A sole proprietorship concern is generally run on a small scale basis.

(iii) A change in operation is possible without involving much expenditure.

(iv) The proprietor can adapt and adjust to the changing trends and market conditions because the sole trader is the sole owner of his business.

17) What is limited managerial skill?

Answer : Single person's intelligence and experience may not help him beyond a certain stage. Since he has to focus on each and every activity. his managerial ability is bound to be limited.

18) Explain the suitability of sole proprietorship. Sole proprietorship is suitable for the following business.

Answer : (i) Where small amount of capital is required, ego Sweet shops, Bakery shops, Petty shops, etc.

(ii) Where quick decisions are very important, ego Share-brokers, Doctors, etc.

(iii) Where limited risk is involved, ego Automobile repair shops, Small retail stores, etc.,

(iv) Where personal attention to individual tastes and fashions of customers is required, ego Beauty parlours, Tailoring shops, etc., .

(v) Where the demand is local, seasonal or temporary, ego Retail trade, Laundry, Fruit sellers, etc.,

19) Bring out the importance in the meaning of sole proprietorship.

Answer : A sole tradership is the oldest form of business organisation:

It is easy and simple to organise. It is found in each and every country in the world. This type of organisation has not lost its utility even today. Sole proprietorship is a form of organisation in which an individual invests the entire capital, uses his own skill and is solely responsible for the result of his business. He may borrow money and employ assistants. But he alone owns and controls the business and bears its profit and loss. The only legal formality is to get a licence from the local authority viz, municipality, panchayat, etc., for running certain type of business. It is also known as individual proprietorship or one-man business. The person who contributes capital and manages the business is called sole trader or sole proprietor.

20) How the following are disadvantages of sole trader?

a) Lack of specialisation

b) limited capital.

Answer : a) Lack of Specialisation:

Since the business unit is small and the financial resources are limited, experts in different fields cannot be employed to secure maximum advantages.

b) Limited Capital:

Since the capital is contributed by one individual only, business operations have necessarily to be on a limited scale.

5 Marks

5 x 5 = 25

21) Explain the characteristics of Sole trading business. (any 5)

Answer : (i) Ownership by one Man:

- (1) This is owned by the single person.
- (2) The sole trader contributes the required capital.
- (3) He is not only the owner of the business but also manages the entire affairs.

(ii) Freedom of work and Quick Decisions:

1. Since the individual is himself as an owner, he need not consult anybody else.
2. Hence he can take quick decisions.

(iii) Unlimited Liability:

When his business assets are not sufficient to pay off the business debts he has to pay from his personal property.

(iv) Enjoying Entire Profit:

He strives tirelessly for the improvement and expansion of his business and enjoys all the benefits of his hard work.

(v) Absence of Government Regulation:

1. A sole proprietor concerns free from Government regulations.
2. No legal formalities are to be observed in its formation, management or in its closure.

(vi) No Separate Entity:

The sole trading concern comes to an end with death, disability, insanity, and insolvency of the individual.

(vii) Maintenance of Secrecy:

In sole proprietorship as the sole owner manages all the affairs of the business, the secrecy can be maintained easily.

22) What are the advantages of Sole trading business? (any 5)

Answer : The following are the advantages of a Sole trader:

a) Easy Formation:

No legal formalities are required to initiate a sole trading concern. Any person capable of entering into a contract can start it, provided he has the necessary resources for it.

b) Incentive to Work hard:

There is a direct relationship between effort and reward. The fact that the entire profit can be taken by himself without sharing with anybody else induces him to work ceaselessly.

c) Small Capital:

Small capital is an important as well as the specific advantage of the sole proprietorship. The sole proprietor can start the business with small capital.

d) Credit Standing:

Since his private properties are held liable for satisfying business debts, he can get more financial assistance from others.

e) Personal Contact with the Customers:

Since sole proprietor knows each and every customer individually he can supply goods according to their taste and preferences. Thus he can cultivate personal relationship with the customers.

d) Flexibility:

The sole trader can easily adjust himself to the changing requirements of his business.

23) What are the disadvantages of Sole trading business?

Answer : The following are the disadvantages of a Sole trader:

a) Limited Capital:

Since the capital is contributed by one individual only, business operations have necessarily to be on a limited scale.

b) Limited Managerial Skill :

- (1) Single person's intelligence and experience may not help him beyond a certain stage.
- (2) Since he has to focus on each and every activity, his managerial ability is bound to be limited.

c) Unlimited Liability:

1. The liability of the proprietor for the debts of the business is unlimited.
2. The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.

d) Lack of Specialisation:

Since the business unit is small and the financial resources are limited, experts in different fields cannot be employed to secure maximum advantages.

e) Hasty Decisions:

Sole proprietor is more likely to take hasty decision as he need not consult anybody else.

- 24) "One-man control is the best in the world provided that one-man is big enough to take care of everything" -Discuss.

Answer : One-man control is the best in the world:

William R. Basset has said that one-man control is the best in the world only when the business is small indeed, to allow one actually to know and supervise everything in the business.

Following are some of the points in favour of one-man control:

- (i) Easy and quick formation,
- (ii) Direct control,
- (iii) Efforts and reward are linked,
- (iv) Retaining business secrets,
- (v) Close touch with the consumers,
- (vi) Enjoying all profits,
- (vii) Inexpensive management,
- (viii) No legal restrictions,
- (ix) Direct contact with the employees and
- (x) Social desirability.

Limitations of one-man control:

Though there are many advantages of one-man control, still it suffers from many drawbacks. One man is unable to manage all the affairs by himself. Basset says, "The danger is always present that he thinks, he knows which really he does not know".

Following are some points unfavourable for one-man control:

- (i) Limited capital,
- (ii) Limited managerial ability,
- (iii) Unlimited liability,
- (iv) Absence of large-scale business operation,
- (v) Risky decisions and
- (vi) Uncertainty.

In conclusion, one-man control is the best from the point of view of profitability and efficiency, provided that one man is big enough to manage everything efficiently.

- 25) Explain the importance of High credit standing in sole trading concern.

Answer : High credit standing of a sole trader refers to his prompt repayment of loans borrowed from creditors. So that he can borrow more funds from creditors to expand his business activities.

(i) Increase in sales: Since the sole trader gets more funds from his creditors due to his credit standing he can satisfy the requirements of his regular consumers based on their tastes, preferences, likes and dislikes, etc., whereby the sole trader can increase the sales in his business.

(ii) Smooth running of the business: When adequate funds are there in a sole trading business then the sole trader can avoid the various hindrances in his business and also he is able to solve his employees problems in business. So that the sole trader can run his business very smoothly without any difficulty.

(iii) Inexpensive management: Due to high credit standing of the sole trader he can effectively manage his capital in a prudent way and can avoid wastage [OR] unnecessary expenses in the business which will lead to inexpensive management.

(iv) Efficiency: Better financial performance by way of good profitability condition in sole trading business and achieving the desired results in the business by constant hardwork leads to efficiency in sole trading concern.

(v) Threat of loss: Fear of loss always cautions the sole trader's credit standing and acts as a stimulant for hard work and effective management of funds borrowed.

(vi) Flexibility: A sole trader can change the nature of business according to the prevailing market situations and grab up the business opportunities through his capital investment.

Conclusion: Finally to conclude, high credit standing of a sole trader leads to efficiency in his business. More funds borrowed may be used in a wise way in sole trading business.